

CITY OF HARTLEY  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2007

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CITY OF HARTLEY

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Rodney Ahrenstorff	Mayor	January, 2008
Dan Mohni	Council Member	January, 2008
Pam Sease	Council Member	January, 2008
Ian Coburn	Council Member	January, 2010
Jerry Olson	Council Member	January, 2010
Ann Petersen	Council Member	January, 2010
Brian Pals	City Clerk/Administrator	Indefinite
Mike Houchins	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.  
JEFFORY B. STARK, C.P.A.  
KEITH C. GERMANN, C.P.A.  
RICHARD R. MOORE, C.P.A.  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
Hartley, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Hartley's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley, Iowa, as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2007, on our consideration of City of Hartley's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 21 through 22 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

City of Hartley, Iowa, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Hartley's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2006 (which are not presented herein), and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

December 14, 2007

*Henzelman, Putzja & Co.*

CITY OF HARTLEY  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Exhibit A

		Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
	<u>Disbursements</u>	<u>Service</u>	<u>Interest</u>	<u>Interest</u>			
Functions/Programs:							
Governmental Activities							
Public safety	\$ 320,624	\$ 68,046	\$ 13,734	\$ 51,553	\$ (187,291)	\$ -	\$ (187,291)
Public works	157,003	12,821	144,437	-	255	-	255
Culture and recreation	171,010	24,353	9,955	-	(136,702)	-	(136,702)
Community and economic development	204,248	-	-	99,670	(104,578)	-	(104,578)
General government	77,679	-	-	-	(77,679)	-	(77,679)
Debt service	55,580	-	-	-	(55,580)	-	(55,580)
Total governmental activities	986,144	105,220	168,126	151,223	(561,575)	-	(561,575)
Business type activities							
Water	258,835	217,365	-	-	-	(41,470)	(41,470)
Sewer	300,568	197,798	-	-	-	(102,770)	(102,770)
Electric	1,374,675	1,067,013	-	-	-	(307,662)	(307,662)
Gas	969,149	1,043,166	-	-	-	74,017	74,017
Solid waste	90,823	121,538	-	-	-	30,715	30,715
Consumer deposit	17,977	18,180	-	-	-	203	203
Cable	126,385	117,230	-	-	-	(9,155)	(9,155)
Total business type activities	3,138,412	2,782,290	-	-	-	(356,122)	(356,122)
Total	\$ 4,124,556	\$ 2,887,510	\$ 168,126	\$ 151,223	(561,575)	(356,122)	(917,697)
General Receipts:							
Property tax levied for:							
General purposes					331,406	-	331,406
Tax increment financing					51,597	-	51,597
Local option sales tax					133,908	-	133,908
Unrestricted interest on investments					78,496	115,925	194,421
Special assessments					8,751	-	8,751
Miscellaneous					8,880	-	8,880
Transfers					(127,276)	127,276	-
Total general receipts and transfers					485,762	243,201	728,963

(Continued)

CITY OF HARTLEY  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Exhibit A  
(Continued)

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest		Governmental Activities	Business Type Activities	Total
	<u>Disbursements</u>	<u>Charges for Service</u>					
Change in cash basis net assets					\$ (75,813)	\$ (112,921)	\$ (188,734)
Cash basis net assets beginning of year					<u>1,266,595</u>	<u>2,313,186</u>	<u>3,579,781</u>
Cash basis net assets end of year					<u>\$ 1,190,782</u>	<u>\$ 2,200,265</u>	<u>\$ 3,391,047</u>
Cash Basis Net Assets							
Restricted:							
Streets					\$ 287,686	\$ -	\$ 287,686
Tax increment financing projects					49,570	-	49,570
Debt service					53,587	903,517	957,104
Other purposes					201,874	-	201,874
Unrestricted					<u>598,065</u>	<u>1,296,748</u>	<u>1,894,813</u>
Total cash basis net assets					<u>\$ 1,190,782</u>	<u>\$ 2,200,265</u>	<u>\$ 3,391,047</u>

See notes to financial statements.

CITY OF HARTLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Exhibit B

		<u>Special Revenue</u>			
			<u>Library</u>		
	<u>General</u>	<u>Road</u>	<u>Expendable</u>	<u>Non-major</u>	<u>Total</u>
		<u>Use</u>	<u>Trust</u>		
Receipts:					
Property taxes	\$ 223,176	\$ -	\$ -	\$ 108,230	\$ 331,406
Tax increment financing collections	-	-	-	51,597	51,597
Other city tax	-	-	-	133,908	133,908
Licenses and permits	4,822	-	-	-	4,822
Use of money and property	77,073	-	15,248	-	92,321
Intergovernmental	69,047	144,437	-	99,670	313,154
Charges for service	81,220	-	-	-	81,220
Special assessments	1,433	-	-	7,318	8,751
Miscellaneous	19,588	-	520	320	20,428
Total receipts	<u>476,359</u>	<u>144,437</u>	<u>15,768</u>	<u>401,043</u>	<u>1,037,607</u>
Disbursements:					
Operating:					
Public safety	320,624	-	-	-	320,624
Public works	62,086	94,917	-	-	157,003
Culture and recreation	149,218	-	21,792	-	171,010
Community and economic development	579	-	-	203,669	204,248
General government	77,679	-	-	-	77,679
Debt service	-	-	-	55,580	55,580
Total disbursements	<u>610,186</u>	<u>94,917</u>	<u>21,792</u>	<u>259,249</u>	<u>986,144</u>
Excess (deficiency) of receipts over expenditures	<u>(133,827)</u>	<u>49,520</u>	<u>(6,024)</u>	<u>141,794</u>	<u>51,463</u>
Other financing sources (uses):					
Operating transfers in	113,190	-	-	129,366	242,556
Operating transfers out	-	-	-	(369,832)	(369,832)
Total other financing sources (uses)	<u>113,190</u>	<u>-</u>	<u>-</u>	<u>(240,466)</u>	<u>(127,276)</u>
Net change in cash balances	(20,637)	49,520	(6,024)	(98,672)	(75,813)
Cash balances beginning of year	<u>335,428</u>	<u>238,166</u>	<u>289,298</u>	<u>403,703</u>	<u>1,266,595</u>
Cash balances end of year	<u>\$314,791</u>	<u>\$287,686</u>	<u>\$ 283,274</u>	<u>\$ 305,031</u>	<u>\$1,190,782</u>

(Continued)



CITY OF HARTLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Exhibit B  
 (Continued)

	<u>Special Revenue</u>				
	<u>General</u>	<u>Road Use</u>	<u>Library Expendable Trust</u>	<u>Non-major</u>	<u>Total</u>
Cash Basis Fund Balances					
Reserved for debt service	\$ -	\$ -	\$ -	\$ 53,587	\$ 53,587
Unreserved:					
General	314,791	-	-	-	314,791
Special revenue	-	287,686	283,274	162,692	733,652
Permanent	-	-	-	88,752	88,752
Total cash basis fund balances	<u>\$ 314,791</u>	<u>\$ 287,686</u>	<u>\$ 283,274</u>	<u>\$ 305,031</u>	<u>\$1,190,782</u>

See notes to financial statements.

CITY OF HARTLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Exhibit C

	<u>Sewer</u>	<u>Electric</u>	<u>Gas</u>	<u>Cable</u>	<u>Non-major</u>	<u>Total</u>
Operating Receipts:						
Use of money and property	\$ -	\$ 1,060	\$ -	\$ -	\$ 1,960	\$ 3,020
Charges for service	197,307	1,050,061	1,032,711	60	332,254	2,612,393
Miscellaneous	491	15,892	10,455	117,170	22,869	166,877
Total operating receipts	197,798	1,067,013	1,043,166	117,230	357,083	2,782,290
Operating Disbursements:						
Business type activities	183,588	1,175,942	969,149	9,615	327,530	2,665,824
Excess (deficiency) of operating receipts over operating disbursements	14,210	(108,929)	74,017	107,615	29,553	116,466
Non-operating receipts (disbursements):						
Interest on investments	17,008	61,940	7,203	15,924	13,850	115,925
Debt service	(116,980)	(198,733)	-	(116,770)	(40,105)	(472,588)
Net non-operating receipts (disbursements)	(99,972)	(136,793)	7,203	(100,846)	(26,255)	(356,663)
Excess (deficiency) of receipts over disbursements	(85,762)	(245,722)	81,220	6,769	3,298	(240,197)
Operating transfers in	124,092	-	-	-	25,415	149,507
Operating transfers out	-	(10,178)	(12,053)	-	-	(22,231)
	124,092	(10,178)	(12,053)	-	25,415	127,276
Net change in cash balances	38,330	(255,900)	69,167	6,769	28,713	(112,921)
Cash balances beginning of year	251,145	1,360,167	162,705	252,404	286,765	2,313,186
Cash balances end of year	\$ 289,475	\$ 1,104,267	\$ 231,872	\$ 259,173	\$ 315,478	\$ 2,200,265
Cash Basis Fund Balances						
Reserved for debt service	\$ 170,516	\$ 484,376	\$ -	\$ 169,283	\$ 79,342	\$ 903,517
Unreserved	118,959	619,891	231,872	89,890	236,136	1,296,748
Total cash basis fund balances	\$ 289,475	\$ 1,104,267	\$ 231,872	\$ 259,173	\$ 315,478	\$ 2,200,265

See notes to financial statements.

CITY OF HARTLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
FIDUCIARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Exhibit D

Agency  
Fund- Hart  
2020

Receipts:	
Intergovernmental	\$ 5,000
Miscellaneous	<u>416</u>
	<u>5,416</u>
Disbursements:	
Community and economic development	<u>8,998</u>
Net change in cash balances	(3,582)
Cash balances beginning of year	<u>12,905</u>
Cash balances end of year	<u>\$ 9,323</u>
Cash Basis Fund Balances	
Reserved:	
Agency fund	<u>\$ 9,323</u>

See notes to financial statements.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Hartley is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1888 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, general government services, and business type activities.

A. Reporting Entity

For financial reporting purposes, City of Hartley has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Joint Ventures - City of Hartley has a 54% interest in a joint venture with City of Sanborn to provide garbage collection service. The cities participate in the collection of garbage, which is under the general management of one representative of each City Council. The following information summarizes the activity of the joint venture through June 30, 2007:

Receipts:

Contributions from other governments:

City of Hartley	\$ 54,000
City of Sanborn	46,000
Rent	500
Miscellaneous	834
Interest	311
	<u>101,645</u>

Disbursements:

Salaries	53,056
Benefits	23,513
Workers compensation insurance	5,072
Property insurance	4,645
Diesel fuel	13,173
Truck maintenance and repairs	6,803
Professional fees	302
Miscellaneous	1,036
	<u>107,600</u>

Net	(5,955)
Balance, beginning of year	6,475
Balance, end of year	<u>\$ 520</u>

City of Hartley has a 54% interest of the assets, property and equipment, equity, and net income.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Reporting Entity - (Continued)

City of Hartley also has a 31.7% interest in Community Cable Television Agency of O'Brien County, a joint venture with the Cities of Paullina, Primghar, and Sanborn to provide cable television, telephone, and internet services. The cities participate in providing services, which is under the general management of one representative of each City Council. The City's share of equity in this organization as of June 30, 2006, is \$270,283.

Jointly Governed Organizations -The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint representatives to the following boards and commissions: O'Brien County Emergency Management Commission, O'Brien County E911 Service Board, O'Brien County Assessor's Conference Board, and Northwest Iowa Area Solid Waste Agency. Payments made to Northwest Iowa Area Solid Waste Agency during the year ended June 30, 2007, were \$17,726.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Fund is used to account for road construction and maintenance.

The Library Expendable Trust Fund is used to account for contributions from citizens to be used for library projects.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Gas Fund accounts for the operation and maintenance of the City's gas system.

The Cable Fund accounts for receipts and disbursements from the City's cable television system as maintained by Community Cable Television Agency of O'Brien County.

The City also reports the following fiduciary fund:

The Agency fund is used to account for fiduciary assets held by the City in a custodial capacity or as an agent on behalf of others.

C. Measurement Focus and Basis of Accounting

City of Hartley maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general receipts.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting – (Continued)

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded amounts budgeted in the public safety function.

2. DEPOSITS

The City's deposits in banks at June 30, 2007, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Auditing Standards Board Statement Number 3, as amended by Statement 40.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

3. NOTES PAYABLE

Annual debt service requirements to maturity for revenue, general obligation, and special assessment notes are as follows:

Year Ending June 30,	<u>Revenue Notes</u>		<u>Revenue Capital Loan Notes</u>		<u>General Obligation Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 93,000	\$ 66,375	\$ 195,000	\$122,707	\$35,000	\$11,190
2009	96,000	63,303	200,000	114,203	35,000	9,580
2010	98,000	60,070	210,000	105,230	35,000	7,935
2011	100,000	56,697	220,000	95,442	40,000	6,255
2012	102,000	53,198	230,000	85,036	40,000	4,295
2013-2017	576,000	207,092	1,335,000	240,925	45,000	2,295
2018-2022	523,000	103,642	220,000	16,258	-	-
2023-2025	326,000	21,548	-	-	-	-
Total	<u>\$1,914,000</u>	<u>\$631,925</u>	<u>\$2,610,000</u>	<u>\$779,801</u>	<u>\$230,000</u>	<u>\$41,550</u>

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

3. NOTES PAYABLE - (Continued)

Year Ending June 30,	<u>Special Assessment Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$10,000	\$1,480	\$ 333,000	\$ 201,752
2009	10,000	895	341,000	187,981
2010	10,000	300	353,000	173,535
2011	-	-	360,000	158,394
2012	-	-	372,000	142,529
2013-2017	-	-	1,956,000	450,312
2018-2022	-	-	743,000	119,900
2023-2025	-	-	326,000	21,548
Total	<u>\$30,000</u>	<u>\$2,675</u>	<u>\$4,784,000</u>	<u>\$1,455,951</u>

The resolutions providing for the issuance of revenue notes include the following provisions:

- A. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to separate electric, water, and telecommunication revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- C. The City is to establish separate Electric, Water, and Telecommunication, Principal and Interest Reserve Accounts into which there shall be set apart and paid at the time of delivery of the obligations the sum of \$190,000 for electric and \$40,000 for water. Sufficient monthly transfers shall be made to the telecommunication reserve account in an amount equal to twenty five percent of the monthly sinking fund transfers.
- D. Additional monthly transfers of \$1,650 to the Electric Improvement Fund and \$1,000 to the Water Improvement Fund shall be made until the sum of \$150,000 and \$36,000 has been accumulated, respectively. These accounts are restricted for the purpose of paying for necessary repairs, improvements, and extensions to the system.

4. OPERATING LEASE

The city leases a copier system. Rental expense incurred for this lease was \$1,039 for the year ended June 30, 2007. Minimum amounts payable under this operating lease are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2008	\$4,157
2009	4,157
2010	4,157
2011	4,157
2012	3,117



CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

5. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005, were \$33,397, \$33,184, and \$33,319 respectively, equal to the required contributions for each year.

6. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2007, primarily relating to the Enterprise Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 20,611
Sick leave	<u>149,694</u>
Total	<u>\$170,305</u>

Sick leave is payable when used or upon retirement or death. If paid upon retirement or death, the total accumulated hours are paid at the then effective hourly rate for that employee. This liability has been computed based on rates of pay at June 30, 2007.

7. INTERGOVERNMENTAL AGREEMENTS

The City has entered into an agreement with Northwest Iowa Area Solid Waste Agency, in accordance with Chapter 28E of the Code of Iowa, for disposal of solid waste from within the City. Payments under this agreement were \$17,726 for the year ended June 30, 2007.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The closure and post-closure costs to the agency have been estimated at \$1,866,468 as of June 30, 2007, and the Agency has begun to accumulate resources to fund these costs. As of June 30, 2007, deposits of \$1,315,329 are held for these purposes. No estimate has been made regarding the effect of future assessments to the City.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

8. EQUITY IN COOPERATIVE

City of Hartley is a member of the Missouri Basin Municipal Electric Cooperative Association. The City's share of equity in this cooperative at June 30, 2007, consists of the following:

Transmission capacity	\$305,487
Members' advances for transmission capacity	209,048
Other members' capital	14,197
Membership	<u>100</u>
	<u>\$528,832</u>

Transmission Capacity - Transmission capacity is stated at cost and consists of contributions made under the Transmission Agreement for the NIPCO transmission system. Transmission capacity is being amortized on a straight-line basis over thirty-five years.

Members' Advances for Transmission Capacity - Members' advances for transmission capacity consist of contributions by the members and net interest earned on investments allocated to the members. These advances from the participating Transmission Members are being held for future transmission capacity contributions by the Association in its capacity as agent for these members.

Other Members' Capital - Other members' capital consists of patronage dividends declared by NIPCO, but unpaid.

9. INTER-FUND TRANSFERS

The detail of inter-fund transfers for the year ended June 30, 2007, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefit	\$ 80,959
	Local Option Sales Tax	10,000
	Enterprise:	
	Electric	10,178
	Gas	<u>12,053</u>
		113,190
Debt Service	Special Revenue:	
	Local Option Sales Tax	42,540
Economic Development	Special Revenue:	
	Local Option Sales Tax	86,826
Water	Special Revenue:	
	Tax Increment Financing	25,415
Sewer	Special Revenue:	
	Tax Increment Financing	<u>124,092</u>
		<u>\$392,063</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

10. RISK MANAGEMENT

City of Hartley is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11. PROMISSORY NOTES

On April 6, 1998, City of Hartley received two promissory notes from Hartley Housing Associates, Limited Partnership, in the amounts of \$40,000 and \$30,000 with interest at two percent and one percent, respectively. Repayment terms are \$2,049 and \$2,164 annually respectively, beginning May 1, 1999, with final payment coming due on May 1, 2013. However, because of limited "surplus cash" available there has only been one payment made on each of these notes since inception. The note agreement does allow this to occur but does stipulate that any unpaid portion shall accrue interest. These notes are secured by mortgages on residential lots owned by the borrower. The funds are to be used to develop affordable rental housing.

12. CONSTRUCTION CONTRACTS AND COMMITMENTS

The City has entered into the following contracts which were not completed as of June 30, 2007.

<u>Project</u>	<u>Total Contract Amount</u>	<u>Amount Paid As of 6-30-07</u>	<u>Remaining Commitment As of 6-30-07</u>
Electric Distribution Improvement	237,783	222,884	14,899

The remaining commitments on this project will be financed with funds on hand.

13. ASSISTED LIVING FACILITY REVENUE BONDS

The City has approved issuing up to \$1,400,000 of assisted living facility revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$548,646 is outstanding at June 30, 2007. The bonds and related interest are payable solely from the revenues of Community Memorial Health Center Association and do not constitute liabilities of the City.

## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARTLEY  
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL  
FUNDS AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007

	Governmental	Proprietary		<u>Budgeted Amounts</u>		Final
	Funds	Funds		Original	Final	to
	<u>Actual</u>	<u>Actual</u>	<u>Total</u>			<u>Total</u>
						<u>Variance</u>
Receipts:						
Property tax	\$ 331,406	\$ -	\$ 331,406	\$ 328,411	\$ 328,411	\$ 2,995
Tax increment financing collections	51,597	-	51,597	47,000	47,000	4,597
Other city tax	133,908	-	133,908	98,000	98,000	35,908
Licenses and permits	4,822	-	4,822	1,975	1,975	2,847
Use of money and property	92,321	118,945	211,266	85,180	85,180	126,086
Intergovernmental	313,154	-	313,154	235,274	310,274	2,880
Charges for service	81,220	2,612,393	2,693,613	2,932,350	2,932,350	(238,737)
Special assessments	8,751	-	8,751	10,000	10,000	(1,249)
Miscellaneous	20,428	166,877	187,305	171,568	171,568	15,737
Total receipts	<u>1,037,607</u>	<u>2,898,215</u>	<u>3,935,822</u>	<u>3,909,758</u>	<u>3,984,758</u>	<u>(48,936)</u>
Disbursements:						
Public safety	320,624	-	320,624	303,304	303,304	(17,320)
Public works	157,003	-	157,003	164,797	264,797	107,794
Culture and recreation	171,010	-	171,010	223,421	223,421	52,411
Community and economic development	204,248	-	204,248	110,338	255,338	51,090
General government	77,679	-	77,679	115,126	115,126	37,447
Debt service	55,580	-	55,580	55,580	55,580	-
Business type activities	-	3,138,412	3,138,412	3,520,051	3,670,051	531,639
Total disbursements	<u>986,144</u>	<u>3,138,412</u>	<u>4,124,556</u>	<u>4,492,617</u>	<u>4,887,617</u>	<u>763,061</u>
Excess (deficiency) of receipts over disbursements	51,463	(240,197)	(188,734)	(582,859)	(902,859)	714,125
Other financing sources (uses), net	<u>(127,276)</u>	<u>127,276</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(75,813)	(112,921)	(188,734)	(582,859)	(902,859)	714,125
Balances, beginning of year	<u>1,266,595</u>	<u>2,313,186</u>	<u>3,579,781</u>	<u>3,119,407</u>	<u>3,119,407</u>	<u>460,374</u>
Balances, end of year	<u>\$ 1,190,782</u>	<u>\$ 2,200,265</u>	<u>\$3,391,047</u>	<u>\$ 2,536,548</u>	<u>\$ 2,216,548</u>	<u>\$ 1,174,499</u>

See accompanying independent auditor's report.

CITY OF HARTLEY  
NOTES TO REQUIRED SUPPLEMENTARY  
INFORMATION - BUDGETARY REPORTING  
JUNE 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities, and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$75,000 and disbursements by \$395,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amount budgeted in the public safety function.

## OTHER SUPPLEMENTARY INFORMATION

CITY OF HARTLEY  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Schedule 1

	Special Revenue					Debt Service		Permanent	
	Employee	Local	Tax	Economic	Owner	Library	Central	Cemetery	
	Benefits	Option	Increment	Development	Occupied	Expansion	Avenue	Perpetual	Total
		Sales Tax	Financing		Rehab		Improvement	Care	
Receipts:									
Property taxes	\$ 108,230	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 108,230
Tax increment financing collections	-	-	51,597	-	-	-	-	-	51,597
Other city tax	-	133,908	-	-	-	-	-	-	133,908
Intergovernmental	-	-	-	-	99,670	-	-	-	99,670
Special assessments	-	-	-	-	-	-	7,318	-	7,318
Miscellaneous	-	-	-	-	-	-	-	320	320
Total receipts	108,230	133,908	51,597	-	99,670	-	7,318	320	401,043
Disbursements:									
Operating:									
Community and economic development	-	-	-	88,279	115,390	-	-	-	203,669
Debt service	-	-	-	-	-	42,940	12,640	-	55,580
Total disbursements	-	-	-	88,279	115,390	42,940	12,640	-	259,249
Excess (deficiency) of revenues over disbursements	108,230	133,908	51,597	(88,279)	(15,720)	(42,940)	(5,322)	320	141,794
Other financing sources (uses):									
Operating transfers in	-	-	-	86,826	-	42,540	-	-	129,366
Operating transfers out	(80,959)	(139,366)	(149,507)	-	-	-	-	-	(369,832)
Total other financing sources (uses)	(80,959)	(139,366)	(149,507)	86,826	-	42,540	-	-	(240,466)
Net change in cash balances	27,271	(5,458)	(97,910)	(1,453)	(15,720)	(400)	(5,322)	320	(98,672)
Cash balances beginning of year	15,779	71,507	147,480	5,694	15,502	33,665	25,644	88,432	403,703
Cash balances end of year	\$ 43,050	\$ 66,049	\$ 49,570	\$ 4,241	\$ (218)	\$ 33,265	\$ 20,322	\$ 88,752	\$ 305,031
Cash Basis Fund Balances									
Reserved for debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,265	\$ 20,322	\$ -	\$ 53,587
Unreserved:									
Special Revenue	43,050	66,049	49,570	4,241	(218)	-	-	-	162,692
Permanent	-	-	-	-	-	-	-	88,752	88,752
Total cash basis fund balances	\$ 43,050	\$ 66,049	\$ 49,570	\$ 4,241	\$ (218)	\$ 33,265	\$ 20,322	\$ 88,752	\$ 305,031

See accompanying independent auditor's report.



CITY OF HARTLEY  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
NONMAJOR PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Schedule 2

	<u>Water</u>	<u>Solid Waste</u>	<u>Consumer Deposit</u>	<u>Total</u>
Operating receipts:				
Use of money and property	\$ -	\$ 1,960	\$ -	\$ 1,960
Charges for service	214,829	117,425	-	332,254
Miscellaneous	<u>2,536</u>	<u>2,153</u>	<u>18,180</u>	<u>22,869</u>
Total operating receipts	217,365	121,538	18,180	357,083
Operating disbursements:				
Business type activities	<u>218,730</u>	<u>90,823</u>	<u>17,977</u>	<u>327,530</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>(1,365)</u>	<u>30,715</u>	<u>203</u>	<u>29,553</u>
Non-operating receipts (disbursements)				
Interest on investments	11,858	1,992	-	13,850
Debt service	<u>(40,105)</u>	<u>-</u>	<u>-</u>	<u>(40,105)</u>
Net non-operating receipts (disbursements)	<u>(28,247)</u>	<u>1,992</u>	<u>-</u>	<u>(26,255)</u>
Excess (deficiency) of receipts over disbursements	<u>(29,612)</u>	<u>32,707</u>	<u>203</u>	<u>3,298</u>
Operating transfers in	<u>25,415</u>	<u>-</u>	<u>-</u>	<u>25,415</u>
Net change in cash balances	<u>(4,197)</u>	<u>32,707</u>	<u>203</u>	<u>28,713</u>
Cash balances beginning of year	<u>207,890</u>	<u>40,489</u>	<u>38,386</u>	<u>286,765</u>
Cash balances end of year	<u>\$ 203,693</u>	<u>\$ 73,196</u>	<u>\$ 38,589</u>	<u>\$ 315,478</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ 79,342	\$ -	\$ -	\$ 79,342
Unreserved	<u>124,351</u>	<u>73,196</u>	<u>38,589</u>	<u>236,136</u>
Total cash basis fund balances	<u>\$ 203,693</u>	<u>\$ 73,196</u>	<u>\$ 38,589</u>	<u>\$ 315,478</u>

See accompanying independent auditor's report.

CITY OF HARTLEY  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2007

Schedule 3

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning Of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End Of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>Revenue Notes:</u>									
Water	November 1, 2003	3.45 - 5.20%	\$ 400,000	\$ 340,000	\$ -	\$ 25,000	\$ 315,000	\$ 15,105	-
Sewer	July 20, 2004	3.00%	1,300,000	1,252,000	-	50,000	1,202,000	37,560	-
Sewer	December 2, 2004	3.00%	432,000	414,000	-	17,000	397,000	12,420	-
			<u>\$2,132,000</u>	<u>\$ 2,006,000</u>	<u>\$ -</u>	<u>\$ 92,000</u>	<u>\$1,914,000</u>	<u>\$ 65,085</u>	<u>\$ -</u>
<u>Revenue Capital Loan Notes:</u>									
Electric	February 1, 2001	5.05 - 5.55%	\$ 1,900,000	\$ 1,635,000	\$ -	\$ 115,000	\$ 1,520,000	\$ 83,733	\$ -
Telecommunication	March 1, 2004	3.05 - 4.90%	1,300,000	1,160,000	-	70,000	1,090,000	46,770	-
			<u>\$3,200,000</u>	<u>\$ 2,795,000</u>	<u>\$ -</u>	<u>\$ 185,000</u>	<u>\$2,610,000</u>	<u>\$ 130,503</u>	<u>\$ -</u>
<u>General Obligation Notes:</u>									
Library	June 1, 2001	4.60 - 5.10%	\$ 400,000	\$ 260,000	\$ -	\$ 30,000	\$ 230,000	\$ 12,540	\$ -
<u>Special Assessment:</u>									
Street Improvement	September 1, 2000	5.80 - 6.00%	\$ 92,000	\$ 40,000	\$ -	\$ 10,000	\$ 30,000	\$ 2,340	\$ -

See accompanying independent auditor's report.

CITY OF HARTLEY  
NOTE MATURITIES  
JUNE 30, 2007

Year Ending June 30,	Revenue Notes						Special Assessment		Capital Loan Notes				
	Water Notes		Sewer Notes		Sewer Notes		Street Improvement		Electric Notes		Telecommunication Notes		
	<u>Issued November 1, 2003</u>		<u>Issued July 20, 2004</u>		<u>Issued December 2, 2004</u>		<u>Issued September 1, 2000</u>		<u>Issued February 1, 2001</u>		<u>Issued March 1, 2004</u>		
	Interest		Interest		Interest		Interest		Interest		Interest		
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	
2008	3.45%	\$ 25,000	3.00%	\$ 51,000	3.00%	\$ 17,000	5.80%	\$ 10,000	5.05%	\$ 120,000	3.05%	\$ 75,000	
2009	3.70	25,000	3.00	53,000	3.00	18,000	5.90	10,000	5.10	125,000	3.25	75,000	
2010	4.00	25,000	3.00	55,000	3.00	18,000	6.00	10,000	5.15	130,000	3.50	80,000	
2011	4.25	25,000	3.00	56,000	3.00	19,000	-	-	5.20	140,000	3.70	80,000	
2012	4.45	25,000	3.00	58,000	3.00	19,000	-	-	5.25	145,000	3.85	85,000	
2013	4.60	30,000	3.00	60,000	3.00	20,000	-	-	5.30	155,000	4.00	85,000	
2014	4.75	30,000	3.00	61,000	3.00	20,000	-	-	5.40	165,000	4.15	90,000	
2015	4.90	30,000	3.00	63,000	3.00	21,000	-	-	5.45	170,000	4.30	95,000	
2016	5.00	30,000	3.00	65,000	3.00	22,000	-	-	5.50	180,000	4.45	100,000	
2017	5.10	35,000	3.00	67,000	3.00	22,000	-	-	5.55	190,000	4.60	105,000	
2018	5.20	35,000	3.00	69,000	3.00	23,000	-	-	-	-	4.75	105,000	
2019	-	-	3.00	71,000	3.00	24,000	-	-	-	-	4.90	115,000	
2020	-	-	3.00	73,000	3.00	24,000	-	-	-	-	-	-	
2021	-	-	3.00	75,000	3.00	25,000	-	-	-	-	-	-	
2022	-	-	3.00	78,000	3.00	26,000	-	-	-	-	-	-	
2023	-	-	3.00	80,000	3.00	26,000	-	-	-	-	-	-	
2024	-	-	3.00	82,000	3.00	27,000	-	-	-	-	-	-	
2025	-	-	3.00	85,000	3.00	26,000	-	-	-	-	-	-	
		<u>\$ 315,000</u>		<u>\$ 1,202,000</u>		<u>\$ 397,000</u>		<u>\$ 30,000</u>		<u>\$ 1,520,000</u>		<u>\$ 1,090,000</u>	

See accompanying independent auditor's report.

CITY OF HARTLEY  
SCHEDULE OF RECEIPTS BY SOURCE AND  
DISBURSEMENTS BY FUNCTION  
ALL GOVERNMENTAL FUNDS  
FOR THE LAST FIVE YEARS

Schedule 5

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:					
Property tax	\$ 331,406	\$ 257,032	\$ 258,995	\$ 268,036	\$ 259,089
Tax increment financing collections	51,597	252,592	225,368	195,663	190,439
Other city tax	133,908	105,092	104,751	100,648	102,318
Licenses and permits	4,822	2,504	1,722	2,276	2,078
Use of money and property	92,321	71,301	70,569	51,061	25,239
Intergovernmental	313,154	291,785	222,787	193,663	183,300
Charges for service	81,220	76,163	59,127	58,675	85,040
Special assessments	8,751	10,920	14,771	26,674	16,620
Miscellaneous	20,428	36,494	328,814	42,931	28,748
Total	<u>\$1,037,607</u>	<u>\$1,103,883</u>	<u>\$1,286,904</u>	<u>\$ 939,627</u>	<u>\$ 892,871</u>
Disbursements:					
Operating:					
Public safety	\$ 320,624	\$ 198,068	\$ 239,950	\$ 215,464	\$ 345,606
Public works	157,003	121,779	128,081	337,381	164,224
Culture and recreation	171,010	186,992	149,383	163,893	171,509
Community and economic development	204,248	137,104	64,821	107,193	2,791
General government	77,679	82,092	73,675	96,598	89,965
Debt service	55,580	57,460	59,300	61,000	67,503
Total	<u>\$ 986,144</u>	<u>\$ 783,495</u>	<u>\$ 715,210</u>	<u>\$ 981,529</u>	<u>\$ 841,598</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC  
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Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council  
Hartley, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated December 14, 2007. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Hartley's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Hartley's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Hartley's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of City of Hartley's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Hartley's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the Schedule of Findings, we believe items I-A-07 and I-B-07 are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hartley's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

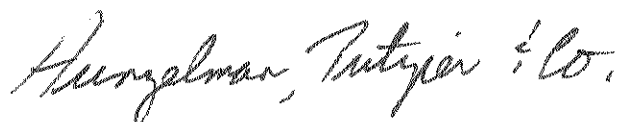
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Hartley's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusion on the City's responses, we did not audit City of Hartley's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Hartley, and other parties to whom City of Hartley may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Hartley during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

December 14, 2007



CITY OF HARTLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by either of two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - It is our practice to cross-train each employee on all aspects of our office. Each employee is assigned specific responsibilities. The cross-training is used primarily to allow for vacations and unexpected illnesses. We have reviewed our operating procedures and believe we have obtained the maximum internal control possible under the circumstances.

Conclusion - Response accepted.

I-B-07 Financial Reporting - Reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response - We will try to attend educational courses. Once the City Clerk/Administrator is back from military service, this should not be an issue.

Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-07 Certified Budget - Disbursements during the year ended June 30, 2007, exceeded amounts budgeted in the public safety function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation".

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

CITY OF HARTLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-A-07 Certified Budget - (Continued)

Response - We try to control costs and time by amending the budget once a year and situations occur with City expenditures that are beyond our control. The council approves all expenditures, including those over budget, at their regularly scheduled monthly meetings. We will monitor funds more closely in the future and amend the budget before expenditures exceed the budget.

Conclusion - Response accepted.

II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-07 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-07 Business Transactions - We noted no business transactions between the City and City officials or employees.

II-E-07 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-07 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-07 Deposits and Investments - No instances of non-compliance with the deposit and investment policy were noted.

II-H-07 Revenue Notes - The City has established the sinking and reserve accounts required by the electric, water, and telecommunication revenue note resolutions.

II-I-07 Excess Balances - The following funds have balances at June 30, 2007, which are in excess of one year's expenditures:

Special Revenue - Road Use Tax  
                          - Library Expendable Trust

Recommendation - While it appears that these funds may have excessive balances, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response -

Road Use Tax - We have seen the cost of street improvements increase substantially. This alone has forced us to accumulate the necessary revenue to complete our street improvements.

Library Expendable Trust - This amount was received from an estate and it will be disbursed according to the library's needs, as determined by their board.

Conclusion - Response accepted.



CITY OF HARTLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-J-07     Financial Condition - The Enterprise, 2002 Water Project Fund, had a deficit balance of \$11,563 at June 30, 2007.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - We will be transferring funds from TIF to cover this deficit.

Conclusion - Response accepted.